

**The City of San Jose's Comments on
The Future of Energy Efficiency Public Benefits Programs**

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By:

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The City of San Jose is pleased to participate in the California Energy Commission's (CEC) Workshop on the Future of Energy Efficiency Public Benefits Programs. The CEC is required by AB 1105 to prepare a transition plan and operation reports regarding the use of Public Goods Funds for energy efficiency.

The City of San Jose is a community of 900,000 residents, 25,000 business and is the core of a metropolitan area of 2 million. The City Environmental Services Department provides direct services to a population of 1.8 million as the responsible agency for wastewater treatment. The annual operating and capital budget of \$1 billion is overseen and approved by Mayor Ron Gonzales and 10 City Council members each representing a district. The total land area of the City is 176.6 square miles spanning from the South San Francisco Bay to Morgan Hill and encompasses the valley floor that defines much of the Santa Clara Valley. Now known as the capital of Silicon Valley, the City is the heart of the economic engine that is helping drive the California economy. The community is a showcase of ethnic and economic diversity.

The Environmental Services Department is responsible of environmental education, service delivery for integrated waste management and water treatment, and the development of policy to support the sustainable growth of the Silicon Valley region.

Since 1980, with the creation of the Energy Office, the City of San Jose has been a leader in energy management. A listing of major accomplishments begins with the fact of achieving annual cost avoidance municipal savings of over \$3 million annually. Other accomplishments include: the Innovative Design and Environmental Analysis Service (IDEAS), adoption of standards for energy efficiency for Housing Department units, enactment of passive solar State legislation and integrating energy services into other programs provided by ESD.

Within ESD, the Business Service Division houses the Conservation and Resource Management Program. The Conservation and Resources Management program has been the "incubator" for past ESD programs that have gone to successful implementation. CRM designed and launched the highly successful Water Efficiency Program that has been responsible for approximately 20 million gallons per day of flow reduction to the Water Pollution Control Plant. The value of this effort has allowed the South Bay to continue management growth in spite of the requirement to not exceed 120 million gallons per day in outflow during the dry weather season. CRM is the headquarters for the South Bay Clean Cities Coalition, is the liaison to the countywide Green Business Recognition Program, and heads other regional conservation programs

We are providing comments on the continuation of Public Goods Programs for a variety of reasons. The City of San Jose is a stakeholder in public benefits programs as an energy customer, as a program implementor, and for our constituents. The City provided initial oral comments at the August 23, 1999 public hearing. The City presents its written comments below.

The City agrees with the principles outlined in the draft CEC report, Public Goods Charge Energy Efficiency Program Report – Operational Plan Report and Transition Plan Report, Staff Draft, November 8, 1999. These principles state that the administrative process must provide continuity, make efficient use of resources, be fair and effective, open and accountable, and provide other benefits.

Local control is an issue that is important to the City of San Jose. The finding of the draft staff CEC report, identifying local governments as potential lead organizations for program management and implementation, is consistent with our adopted policy. We submit the comments below in order to provide additional insight toward improved future programs. Our comments are, by and large, limited to the topic of the role of local government.

Continuing Need for Public Benefits Energy Efficiency Programs –Underlying Reasons

The draft CEC report, page 13 states “Market Transformation programs... take longer to achieve results but are designed, often through information and technology promotion, to create a permanent, largely unsubsidized, increase in demand for energy efficiency.” We agree with this observation. Our reasons for supporting continuation of the funding agree with the draft CEC comments cited on pages 6-7 of the report. The draft Energy Commission’s goals, as presented on pages 16-17, emphasize capturing both long and short-term societal benefits. San Jose’s detailed justification on why program funding should be extended too is based on both long and short-term perspectives as explained below.

Reason One. Energy Efficiency is an Under Utilized Resource, Especially by Small Customers

Unfortunately but not surprisingly, after three years of deregulation, the market for energy efficiency services is neither fully transformed (mature) nor self-sustaining. It is doubtful that by the end of next year the energy efficiency services market will be mature enough to be considered transformed and self-sustaining. The industry has served the mature market of larger customers almost exclusively, and the small business and residential markets have been left mainly untapped. This is because the smaller customers are hard-to-reach with smaller accounts, and often need education on the benefits of energy efficiency. This barrier results in a high overhead cost, reducing the appeal of those customers. With public benefits funding, cities could play the role of customer educator for those underserved markets.

Reason Two- Split Incentives- an Unresolved Issue

An on-going systemic barrier to the adoption of energy efficiency measures is the split incentive between first-cost focused builders, and the long-term occupant of buildings. It is commonplace for the tenant of a building to be the party responsible for paying the electric bill. Since leases are typically short-term, the tenant will not have financial incentive to invest in capital upgrades or retrofits with long payback periods. Public benefits programs must be extended to help overcome this barrier and reduce waste. This is particularly evident in the multifamily residential

and small business sectors. The influence of local governments in promoting programs such as building commissioning may prove useful in bridging this gap.

Reason Three - Supply Shortages

Experts knowledgeable about future energy picture are projecting imbalances between demand and supply in the not too distant future. At the recent “Power Matters” Conference, several high-profile speakers including commissioners of the CEC and CPUC, as well as the Chief Executive Officer of the California Power Exchange, warned of impending power shortages. Based on current projections, power supply in California may fall short of demand within a few years if the present path is followed. State Senator Debra Bowen, Chair of the Senate Energy, Utilities, and Communications Committee, raised the challenge of meeting demand through efficiency, rather than by solely increasing supply. The City believes that public benefits programs are crucial to heed this call, and must be continued. Without continuation of demand management, even a greater number of additional powerplants will be sited in our communities. Public benefits programs must be extended to help provide a hedge against continued demand for power.

Reason Four- Weaker External Price Signals

The short-term drop in energy prices anticipated to result from expiration of the Competition Transition Charge (CTC) component presents an additional disincentive to investments in energy efficiency. With the elimination of the Competition Transition Charge, electricity prices will drop thereby making payback on energy efficiency longer. Price signals denoting “cheap power” will play a downward force on energy efficiency investments. Public benefits programs must be extended to help overcome this barrier and reduce unnecessary and wasteful utility usage.

Reason Five - Low Consumer Awareness

Market research shows that consumer awareness of the benefits of energy efficiency is low. According to the recent study “CBEE Baseline Study on Public Awareness and Attitudes Toward Energy Efficiency” (June 18, 1999), “Few consumers have adequate awareness/knowledge of the range of specific actions they can take to save energy at home.” The study makes a series of recommendations that could increase consumer awareness if public benefits energy efficiency programs are continued. The recent report “Evaluation of the Third Party Initiative Program”, prepared for the California Board for Energy Efficiency (CBEE), also has many recommendations that can only be realized with an extension of funding. Public benefits programs should be extended to support long-term change and create an unsubsidized demand for energy efficiency.

Reason Six - Investing in Municipal Operations

The City of San Jose has a history of taking an active approach to energy management programs. We have installed LED's in traffic signals and replaced streetlights with low-pressure sodium Lighting. Total savings from these outdoor lighting retrofits have earned over \$1 million annually. The San Jose Convention Center's 1500-kilowatt cogeneration facility saves approximately \$480,000 annually in utility bills, compared to the previous heating, ventilating, and air-conditioning system. Supported by \$55,000 in rebates from PG&E, the City replaced lamps and ballasts with energy efficient equipment as part of the Power Savings Partners program. The City now saves an additional \$200,000 annually under this program. These tremendous energy efficiency improvements might not have been actualized without support of past public benefits programs.

New technology provides new options for lowering utility costs. Local governments working with ESCO's depend on public programs for implementing the next generation of municipal energy conservation programs.

Oversight of Public Benefits Programs

The City's perspective on program oversight is based on

- Our experience as an observer of electric restructuring,
- As a major customer of utility services,
- As a provider of resource conservation services to residents and businesses and
- As a member of the technical advisory committee to the California Board for Energy Efficiency.

The City supports the proposal outlined by the CEC in "Staff Administrative Structure Proposal" for a consolidated energy agency. This model and organizational framework should eliminate some of the barriers that have delayed program implementation in recent years. The structure should allow for the overlap of energy efficiency and renewable energy program planning and incorporate input from local jurisdiction. We would suggest program planning through an institutionalized process.

The City of San Jose supports the CEC's proposal towards sustained market transformation but offers some differences in emphasis. We agree that programs should include a theory of how the program will lead to desired market effects. Our research shows a strong linkage between local leadership, local champions, and other local and regional factors playing a dominant role in bringing about market effects. On page 22 of the CEC Report, "Programs cannot simply provide more information but must creatively and consciously change information acquisition habits. This could include making information more conspicuous, easier to interpret or by adding new

trustworthy intermediaries.” We submit that local leaders are examples of trustworthy intermediaries.

With this in mind, our recommendations include:

- Institutionalize local government representation on any steering committees
- Create a steering committee whose purpose is the implementation of local government/community energy programs
- Measure the non-energy benefits as part of marketing with other resource agencies
- Create boilerplate contract language to expedite the contracting process
- Ensure adequate staff resources dedicated to supporting project administration
- Commitment to local government role in the provision of energy efficiency services, including budget line item.

The City’s Response to the Operational and Transitional Plans

The Operational Plan Report addresses many basic concerns of local governments. The CEC recommends to “give local governments an opportunity to provide regionally-specific cost-effective energy programs” (p.7).

The City supports the CEC’s goal of emphasizing the use of pilot initiatives. The CEC is certainly aware of the benefits that pilot programs offer in terms of risk-reduction, and in testing innovative ideas. The City is pleased that the CEC recommends that funds should be allocated to local governments to assure incubation and piloting of new ideas (p.22, p.43).

On page 14 of the Operational Plan Report, the CEC reports that current programs cater to the large commercial market. Page 17 further addresses the issue of equitable distribution of PGC costs and benefits. We propose dividing Public Goods Charge funds with greater equity not only among sectors, but among geographic regions as well. As the CEC points out, all classes of ratepayers pay in the charge, so those classes should receive proportionate amounts of benefits. Because San Jose businesses and residents are paying the Public Goods Charge, the City wants to ensure that constituents are receiving adequate ratepayer energy efficiency services in return. The table below details the amount of ratepayer funds that go into the Public Goods Charge from San Jose electric customers. The total amount paid for Public Goods Charges by San Jose constituents is over \$20 million for 1998.

City of San Jose Constituents' 1998 Contribution to Statewide Public Goods Charge Fund

Segment	# of Customers	kWh	Electric Revenue	PGC Rate*	PGC Value
Residential	245,000	1,527,114,000	\$166,775,900	0.0042	\$ 6,413,879
Small Comm.	16,000	347,335,000	\$39,491,000	0.0046	\$ 1,597,741
Med/Lrg Comm	4500	3,431,000,000	\$262,000,000	0.0035	\$ 12,008,500
Total	265,500	5,305,449,000	\$468,266,900		\$20,020,120

* Rates are approximation for each aggregated customer class. Public Goods Charge rates vary within residential, small commercial, medium commercial, and large commercial customer classes.

The City also supports the CEC's recommendation for the creation of a uniform surcharge. As indicated on the table above, the Public Goods Charge component varies depending on customer class.

We are concerned about delays in spending authorized program budgets. For example, as mentioned on page 31, "program spending in the new construction market was \$16 million in 1998... the authorized budget was \$42 million". The Local Government Initiatives RFP has not yet been released. The new operational plan should address and rectify this administrative shortcoming.

The CEC's plan to reduce expenditures on MA&E is critical. The tens of millions of dollars that have been spent annually on MA&E could be lowered, with the dividend spend on more beneficial activities. The City is satisfied with the proposed budget level for CEC staff and technical consultants.

Overall, the City supports the CEC's efforts to become a "one stop shop" for public benefits energy efficiency and renewable energy programs. Currently there is no comprehensive single source for all of these programs and the Operational and Transition Plan Report provides a well thought out proposal.

Local/Regional/Statewide Approach

Currently, most public benefits energy efficiency programs are statewide in their design. Recently some energy program planners are giving attention to local and regional needs and climate zones. The City of San Jose supports funding "customized" programs for specific regional and local needs. The City supports regional funding when allocated as an option along with and not in competition with local funding. Regional energy centers, where they exist, are able to take advantage of certain economies of scale. Capable local governments too can serve this function when done cooperatively with neighboring cities and towns. .

The City of San Jose is committed to sharing information among local governments. The City, along with the Cities of Irvine and Santa Monica, created an informal coalition of local governments with an interest in energy issues. The California Communities Energy Alliance (CCEA), which was established under a U.S. Department of Energy grant, has served as a forum for interested local governments to exchange information about deregulation.

Future public benefits programs should fund such networks. These allow local governments, utilities, and state government to communicate more effectively. For example, when the utilities issue the upcoming statewide RFP for Codes, Standards, and Local Government Initiatives, a group such as CCEA could be an effective channel for dissemination.

The City of San Jose supports several of the key comments of Richard Flood, Executive Director of the Community Energy Services Corp as submitted on October 15, 1999. In these comments, Mr. Flood outlined an approach that would use a system of Regional Energy Offices. These REOs would be based on existing networks of local governments, and would capture the core competencies that local governments have in providing community services.

The optimal funding recipient will vary among each region, based on administrative capacity and experience. San Jose's City Council has adopted several vehicles that have a scope of operation beyond the city limits. These include the South Bay Clean Cities Coalition, Ultra Low Flush Toilet Program, Watershed Management Initiative, and South Bay Water Recycling. The City is works as a regional presence and has the capacity to do so for energy efficiency programs as well.

Development of Customer Friendly Programs

Local governments are in a gateway position to the energy consumer. Because of San Jose's strong community ties, Pacific Gas & Electric Company selected the City of San Jose to pilot an outreach program identifying and targeting "hard-to-reach" customers with education about existing statewide energy efficiency incentive programs. Under the Targeting Energy Efficiency Measures at Underserved Populations (TEEM-UP) project, the City will perform a market analysis, and determine how to increase participation in energy efficiency programs. The program will address residents and small businesses, which are historically underserved sectors by energy efficiency programs. The City will evaluate tools that draw on local government strengths such as ties to community groups, regulatory powers, and experience in marketing and operating environmental programs.

This pilot program is a good example of partnerships that increase consumer awareness and help sustain the energy efficiency services market. The results of this program could be replicated by other local jurisdictions. The City of San Jose and several other jurisdictions has formed the California Communities Energy Alliance, which has served as a means of information sharing on energy initiatives. Future allocations should value programs with influences with consumers and community groups.

Coordination, Flexibility and Synergy

New administrators for the Public Benefits program should work with local governments to -

- create programs that institutionalize higher levels of efficiency in codes and standards,
- provide training and design assistance, and
- Support the development of “green buildings”.

These activities would fulfil the unmet potential of the current “Codes, Standards, and Local Government Initiatives” program.

The CEC should consider other new program options. For example, administrators should design appliance rebate programs with flexibility so that under Local Government Initiatives other measures may be included so long as they meet predetermined criteria. Examples may include rebates for tree planting and electric lawn mowers. Both of these measures offer energy efficiency as well as direct, quantifiable air quality benefits.

We encourage the CEC to address energy efficiency services with renewable energy. This comprehensive approach to energy services is innovative, shows tremendous potential, and has a natural link. Yet within the CBEE’s designated program areas these programs were overlooked. They were overlooked again in the recent Third Party Initiative program evaluation report. Public benefits energy efficiency programs to date have failed to make the connection between energy efficiency and other types of resource efficiency.

A means of improving the balance of generating capacity with demand is to promote the use of small scale on-site distributed generation, particularly systems that use renewable power and are clean burning. The City supports continued efforts related to distributed generation, and hopes that the new administration will coordinate these better.

Linking or bundling energy efficiency products and services with other resource efficiency programs would have a tremendous market transforming affect. For example, waste audits and water efficiency audits could be combined with energy audits. This would take the “whole house” approach to a new level. Financial support for “green building” development programs could be a worthwhile outcome of this approach. The City of San Jose’s Green Building program, which is now designing a local green building policy, would serve as a good model for such an effort.

While the City understands that this forum is dedicated to the discussion of energy efficiency programs, we want to reinforce our support for the continuation of the Customer Credit and other public benefits programs that support renewable energy. We anticipate that the CEC’s oversight of energy efficiency and renewable energy programs should improve coordination and provide opportunities for co-marketing of these related fields.

Contracting and Management

Program administrators should make straightforward the contracting and solicitation process. Administrator of public benefits programs must develop in advance user-friendly "boilerplate" contract language for agreements. Delays that have typified contracting for public benefit programs during the last few years are neither satisfactory nor conducive to market transformation. The City of San Jose finds it constructive that this issue has been recognized in the CEC's staff paper.

Conclusions

The City of San Jose supports efforts to seek continuation and stability in the operation of Public goods funded programs. We hope that the outcome of this process will be a set of programs that utilizes the strengths of local governments in delivering energy efficiency services and information to customers.